



Betty T. Yee, Chairwoman State Board of Equalization

Serving the 8.5 million Californians of the First Equalization District,
comprised of 21 counties along the northern and central California coast,
including the entire San Francisco Bay Area.



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Quarterly e-Newsletter

Welcome to the winter edition of my e-newsletter.

For many, 2008 will be remembered for its many low points. Most notably, California's unemployment rate rose to 8.2 percent in October 2008, up by 2.5 percent over that of October 2007 (the highest year-over-year increase since December 1982) and the highest rate since September 1994. As the state's economic downturn continued in the last quarter of 2008, it is clear that other major sectors of the economy added to the job losses already recorded in the residential construction and housing sectors: trade, transportation, and utilities; professional and business services; manufacturing; financial services, and information services.

These economic impacts have resulted in state revenues coming in significantly below projections, with the Governor and the leaders of the California State Legislature working through the Christmas holiday to grapple with an estimated \$14.8 billion budget gap for the 2008-09 fiscal year, totaling \$40 billion through June 2010. The State Controller warns California is likely to run out of cash in February absent any action by the Legislature and the Governor to address the budget gap.

Adding even more pressure to the State and local budgets, November 2008 marked another tragic month in the now-seemingly year-round fire season in California. In the First Equalization District, Santa Barbara County was hit again in November with a devastating fire --- the Tea Fire --- that destroyed 200 homes and burned 2,000 acres in Montecito and Santa Barbara. The Tea Fire followed on the heels of the Gap Fire that burned for most of July, charring 10,000 acres and burning no homes. My heart goes out to the individuals and families affected by these fires, and my hat is off to the hundreds of dedicated and brave men and women fighting these blazes on the front line.

Finally, while an exciting Presidential election highlighted 2008, the California November election results included the passage of Proposition 8, which enacts a constitutional ban to eliminate the right of same-sex couples to marry, thereby overturning the May 2008 California Supreme Court decision. Legal challenges relating to this measure are pending.

I know many Californians are struggling to make sense of dire economic circumstances, which is why I have included some information about a few available resources to help those in need of mortgage debt and/or consumer debt relief. I hope you will find them helpful.

Happy New Year, and best wishes for a brighter 2009.

Sincerely,

BETTY T. YEE
Chairwoman

To learn more about
services provided by
the State Board of
Equalization, please
call my office or
visit my website at:

www.boe.ca.gov/members/yee

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SLOWING ECONOMY MARKED BY DECLINE IN TAXABLE SALES

Vice Chairwoman Yee announced that taxable sales in California decreased for the second quarter in a row by 0.8 percent in the fourth quarter of 2007. Total taxable sales for the fourth quarter of 2007 was \$145.3 billion --- down \$1.2 billion from the fourth quarter of 2006. Taxable sales have not fallen for two consecutive quarters since 2002.

However, Vice Chairwoman Yee notes a bright spot as California experiences continued slowing economic growth. "The nine-county San Francisco Bay Area posted a 1.9 percent increase in taxable sales during the fourth quarter of 2007 over the same quarter in 2006," she points out. The peninsula and Silicon Valley counties of San Francisco, San Mateo, and Santa Clara had even stronger growth rates of 3.3 percent, 2.1 percent, and 3.3 percent. Of the 10 most populous cities in California, Oakland had the fastest taxable sales growth rate, increasing 8.3 percent. Other cities in the Bay Area with rapid growth included Richmond, Fremont, and Sunnyvale, which had growth rates of 12.0 percent, 8.5 percent and 6.6 percent, respectively.



GOVERNOR'S FINANCE DEPARTMENT PROPOSES NEW BUDGET PLAN TO ADDRESS THE PROJECTED \$40 BILLION SHORTFALL

On December 31st, the California Department of Finance released the Administration's plan to close the \$42 billion budget gap with \$17.4 billion in spending cuts, \$14.3 billion in new revenue, and \$10.3 billion in borrowing. Highlights include:

Spending Cuts: \$5.2 billion by reducing funding for K-12 education and community colleges and authorizing school districts to reduce the school year by five days; \$692 million by reducing the University of California and California State University budgets; \$1.4 billion and \$1.1 billion by reducing Supplemental Security Income/State Supplemental Program grants to the aged, blind, and disabled and welfare grants to low-income families, respectively; \$744 million by eliminating certain benefits, increasing eligibility requirements, and decreasing hospital reimbursement rates in the Medi-Cal Program; and \$1.7 billion by implementing two-day-a-month furlough, eliminating two State holidays, instituting layoffs, and shifting health care from CalPERS to managed care for State employees.

Revenues: \$9.5 billion from raising the sales tax by 1.5 cents for three years; \$1.4 billion by applying the sales tax on selected services; \$1.4 billion by reducing the dependent care credit from \$309 to \$99 per dependent; \$1.2 billion from a 9.9% tax on oil extracted in the state; \$829 million from increasing the alcohol tax by 5 cents per drink; \$451 million from a \$12 per vehicle increase in the vehicle registration fee; and \$38.5 million from eliminating the property tax deferral program for homeowners who are aged, blind, or disabled.

Borrowing: \$5 billion by "securitizing" future lottery earnings, a proposal that requires voter approval; \$4.7 billion from selling revenue anticipation warrants; and \$594 million from internal borrowing from special funds for the State General Fund.

Vice Chairwoman Yee observes, "Closing a gap of this magnitude cannot be accomplished with cuts alone, and I applaud the Department of Finance for proposal a multi-pronged strategy. However, when considering spending cuts, the Governor and the Legislature must understand the short-term and the long-term impacts of these program cuts."

Figure INT-02
Proposed Budget Solutions
(Dollars in Billions)

	December 19 Special Session Proposals		Additional Special Session Proposals		Proposals to be Enacted By July 1*		Total	
Expenditure Reductions	\$9,811	44%	\$4,049	87%	\$3,567	24%	\$17,427	42%
Revenues	12,505	56%	236	5%	1,545	10%	14,286	34%
Lottery	0	0%	0	0%	5,001	34%	5,001	12%
Borrowing	0	0%	358	8%	0	0%	358	1%
RAWs	0	0%	0	0%	4,673	32%	4,673	11%
Total	<u>\$22,316</u>	100%	<u>\$4,643</u>	100%	<u>\$14,786</u>	100%	<u>\$41,745</u>	100%

* Includes minor policy issues of \$72m (\$102m in revenues and -\$30m in expenditures)

Source: California Department of Finance (<http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf>)

DEBT RELIEF: WHERE TO FIND HELP

The State of California is not the only employer proposing to tightening its belt. Local government and private sector employers also are implementing cost-cutting measures such as cuts in goods production as global demands weaken, furloughs, and layoffs. The resulting workforce reductions, coupled with the housing and mortgage crisis earlier in 2008, have families scrambling to make ends meet.

Some available resources to assist individuals and families with debt relief include:

Consumer Debt Relief: American Consumer Credit Counseling is a national nonprofit organization where trained professionals offer confidential credit counseling, debt management planning, and financial education. Working with consumers on an individual basis to help them resolve their unique financial challenges, American Consumer Credit Counseling can be a valuable resource to help one gain and maintain financial stability.

To contact American Consumer Credit Counseling, call 1-800-769-3571 or visit <http://www.consumercredit.com> for more information about available services.



Vice Chairwoman Yee cautions, “Please be aware that during this vulnerable time, scam operations are on the rise that purport to assist consumers and homeowners with debt problems.”

Mortgage Debt Relief: Generally, if one borrows money from a bank or other commercial lender and the lender later cancels or forgives the debt, the cancelled or forgiven amount is subject to income tax because there is no longer any obligation to repay the lender.

However, the federal Mortgage Forgiveness Debt Relief Act of 2007 allows taxpayers to exclude debt forgiven on their principal residence if the balance of the loan was less than \$2 million. The limit is \$1 million for a married person filing a separate return.

California partially confirms to the federal provisions for the 2007 and 2008 tax years, with limiting the amount of the principal residence indebtedness to \$800,000 and debt relief to \$250,000 (\$400,000 and \$125,000, respectively, for married persons or registered domestic partners filing separately).

Visit <http://www.irs.gov/individuals/article/0,,id=179414,00.html> for more information about the federal Mortgage Forgiveness Debt Relief Act of 2007.



SMALL BUSINESSES OFFER GLIMMER IN TOUGH ECONOMY

Even in this depressed economy, small business owners attended and participated in the series of in-language Basic Sales and Use Tax classes in the fall to learn about their state tax requirements. Small business owners attended the classes offered in Vietnamese, Spanish, and Chinese in San Jose, Santa Rosa, and Salinas by bilingual Board of Equalization (BOE) staff.

Class participants included owners and operators of restaurant, grocery store, flea market, apparel, cell phone kiosk, Internet-based, and home-based businesses. "It is heartening to see small business owners committed to meeting their tax requirements during these tough economic times, and I am pleased the BOE staff is available to help them."

A warm thank you to the group of BOE instructors who continue their commitment to provide these in-language classes: Vietnamese instructors My-Ly Nguyen, Vi Nguyen, Vy Dang, and Linh Vu; Spanish instructors Harry Lucho, Rosalinda Thomas, Ruth Areco, and Moises Barrera; and Chinese instructors Jim Banh, Rachel Zou and Nancy Li.



VICE CHAIRWOMAN YEE ON CAMPUS

Continuing her commitment to encourage, support, and mentor our youth, Vice Chairwoman Yee provided the keynote address to participants of the Asian Pacific Leadership Conference in November at the University of California, Santa Barbara. The conference was attended by alumni of the Asian Pacific Youth Leadership Project for high school students and is intended to provide additional opportunities for college youth to realize their leadership potential and learn how to actively engage in community and public service.



"It is always so inspiring to meet young people who are committed to giving back to their communities and their country as they consider their career choices," Vice Chairwoman Yee remarks, upon meeting young Asian and Pacific Islander men and women who are interested in such diverse careers as local law enforcement, the arts, law, medicine, and foreign service.

Additionally, representing the Board of Directors of the California Alumni Association of the University of California, Berkeley (UC Berkeley), Vice Chairwoman Yee attended The Achievement Award Program luncheon to honor the Program scholars whose attendance at UC Berkeley is made possible by substantial scholarship funding and support services.

Each year, highly qualified students with a proven track record of academic success are admitted to Cal Berkeley but cannot afford to attend. Program scholars must be enrolled full-time, attend evening scholar meetings and events throughout the academic year, perform 10 hours of community service and outreach per semester, and maintain a 2.0 cumulative grade point average. The scholarship of up to \$6,000 per year is renewable each year provided these requirements are met. Program scholars also receive a free laptop computer.

Vice Chairwoman Yee states, "It is so exciting to meet The Achievement Award Program scholars and hear about their community service experience and their motivation to attend Cal. Many of the Program scholars are trailblazers, being the first in their family to attend college."



In October, Vice Chairwoman Yee had reason to return to the campus of her graduate school alma mater, Golden Gate University (GGU) in San Francisco, to receive the Community Service Award from the GGU Alumni Association. Addressing a luncheon crowd of GGU alumni, supporters, and staff, she reflected on her experience as a student at GGU and the valuable lessons learned while studying there for her master's degree in public administration.

Vice Chairwoman, in her remarks, stated, "Today, government at all levels is getting a bad rap --- too much interference by it, too slow to act, too rife with corruption. But I believe everyone also recognizes the "good" that government does --- when they encounter how government can help those in need. I believe the integrity of government is based on the character of those who serve in it. Thank you, Alumni Association, for this great honor, and thank you, Golden Gate University, for helping to build my character to serve. For I still believe there is no higher honor than public service. --- being able to serve to make a difference in the lives of others."



ATTENTION TO COMPLIANCE IN THE CONSTRUCTION INDUSTRY

On October 23rd, Vice Chairwoman Yee in co-sponsorship with the Foundation for Fair Contracting and the San Mateo County Transit District (SamTrans), convened the Underground Economy, Tax Enforcement, and Prevailing Wage Conference at the SamTrans Administrative Office Building in San Mateo. According to Chairwoman Yee, "The presence of an underground economy, especially during this time of a weakened economy, threatens to severely undermine the fiscal health of our state. It costs Californians billions of dollars annually in lost revenues that would otherwise be available to fund vital public services. Illegal activities associated with the underground economy mean that hardworking men and women lose the protections and benefits of California's labor and tax laws, creating an unlevel playing field that disadvantages legitimate employers who comply with these laws."

Over 100 labor compliance officials from local governments and labor organizations attended the conference, which featured presentations by representatives of SamTrans, the Contractors State License Board, the Employment Development Department, the Franchise Tax Board, the BOE, the Department of Insurance, the Division of Labor Standards Enforcement, and the Division of Apprenticeship Standards. Conference attendees were able to learn about the current licensing, tax, and labor law enforcement activities of these agencies as they relate to construction contractors, and public works projects.

Thank you especially to Bryan Berthiaume with the Foundation for Fair Contracting and George Cameron with SamTrans for their commitment to keeping awarding agencies, contractors, and enforcement agencies informed in the collective efforts to address the underground economy.



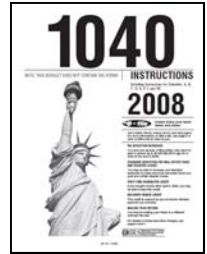
GETTING READY FOR THE TAX FILING SEASON

April 15th --- when federal and state income tax returns must be postmarked to the Internal Revenue Service (IRS) and the Franchise Tax Board (FTB), respectively --- is just around the corner. Many taxpayers procrastinate preparing their returns, scrambling last-minute to find records needed to complete their returns.

However, returns filed under these conditions are often inaccurate, forcing the taxpayers to either amend their returns later, lose deductions to which they are entitled, or find out in an audit they owe more tax plus interest.

Start gathering your records now, and prepare your returns early! This is not as difficult as it might seem. For more information on assembling your records, go to

http://www.boe.ca.gov/members/yee/pdf/2009_Getting_Your_Records_Ready_for_Tax_Season.pdf



E-filing: Filing your income tax returns has become easier. You can be among the millions of taxpayers who prepare and e-file their returns directly to the IRS and the FTB. For more information about the Free File program for your federal return, visit <http://www.irs.gov/efile/article/0,,id=118986,00.html>. For more information about the CalFile or the Ready Return programs for your state return, visit <http://www.ftb.ca.gov>.

Same-sex Married Couples in California: Same-sex couple marriages performed in California on June 16, 2008 and before November 5, 2008, have been recognized as valid marriages for California purposes. Married couples must file their California income tax returns using either the married/RDP filing jointly or married/filing separately filing status. For more information, visit <http://www.ftb.ca.gov> for FTB Publication 776, Tax Information for Same-Sex Married Couples. because lawsuits challenging the Proposition 8 are pending, please consult the FTB's website for updates about the filing status on your 2008 returns.



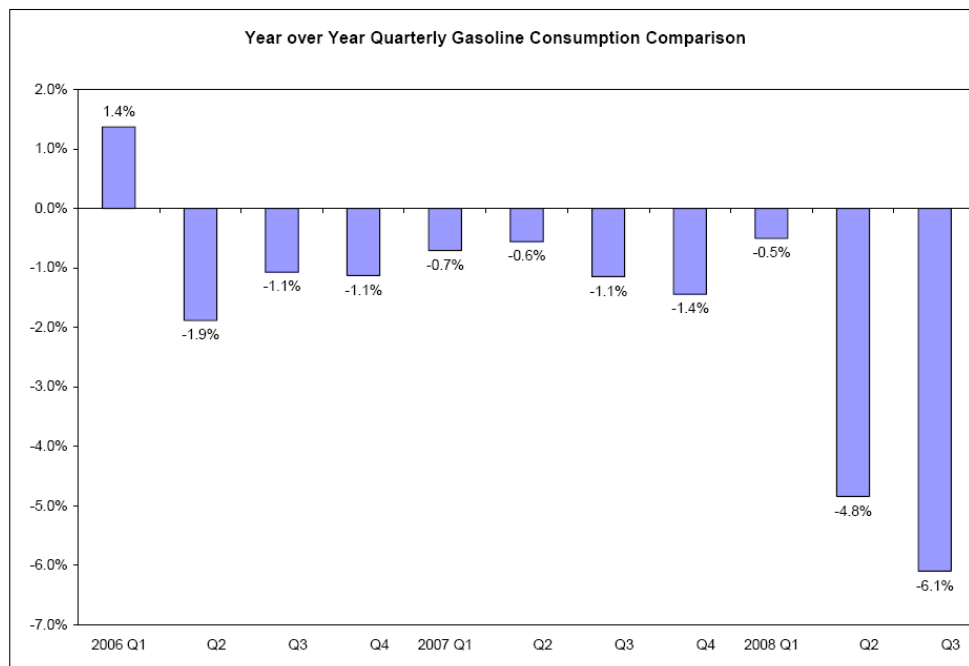
Registered domestic partners must continue to file their state income tax returns using either married/filing jointly or married/filing separately filing status. For more information, visit <http://www.ftb.ca.gov> for FTB Publication 737, Tax Information for Registered Domestic Partners.

GASOLINE CONSUMPTION WATCH

Vice Chairwoman Yee reports the third quarter of 2008 marks the 10th consecutive three-month period to show less gas consumption. In the third quarter of 2008, Californians used 242.6 million gallons less than the third quarter last year, which is a decline of 6.1 percent. Comparing monthly gasoline consumption over the same month a year earlier, gasoline consumption declined by 4.3 percent in September 2008 from September last year to 1.22 billion gallons, which is 54.6 million gallons below the same month a year ago. The average California gasoline price at the pump in September was \$3.84 per gallon, a 31.5 percent change from the average price the same month last year when it was \$2.92.

Diesel consumption in California also declined 10.4 percent in the third quarter of 2008 from the third quarter last year. A total of 731.5 million gallons of diesel fuel was sold in the third quarter of 2008, which is 84.7 million gallons less than the third quarter last year. Diesel fuel sold for use on California roads in September 2008 declined 8.8 percent over September 2007 to 254.4 million gallons, which is 24.6 million gallons below the year before. California diesel prices were up 35.4 percent in September 2008 compared to September 2007 when the average diesel price was \$3.02.

“The gas price fluctuations have resulted in a sustained decline in gasoline consumption by consumers, suggesting their driving habits may have changed permanently,” observes Vice Chairwoman Yee. “The decreased diesel consumption surely reflects the slowing economy that is associated with less freight movement on California roads and highways.”



UPCOMING EVENTS

The following outreach and education events are being offered free of charge in the First Equalization District from January 2009 through March 2009. Please visit www.boe.ca.gov/sutax/tpsched.htm to obtain detailed information about seminar and conference topics, times, and locations.

January 8:	Basic Sales and Use Tax Seminar in English (San Francisco)
January 13:	Basic Sales and Use Tax Seminar in English (Oakland)
January 15:	Basic Sales and Use Tax Seminar in Spanish (San Jose)
January 21:	Basic Sales and Use Tax Seminar in English (Santa Rosa)
January 22:	Basic Sales and Use Tax Seminar in Spanish (Santa Rosa)
	Basic Sales and Use Tax Seminar in English (San Jose)
February 5:	Basic Sales and Use Tax Seminar in English (San Francisco)
February 10:	Basic Sales and Use Tax Seminar in English (Oakland)
	Basic Sales and Use Tax Seminar in English (Salinas)
February 11:	Basic Sales and Use Tax Seminar in English (San Jose)
February 18:	Basic Sales and Use Tax Seminar in Chinese (San Jose)
March 5:	Basic Sales and Use Tax Seminar in English (San Francisco)
March 12:	Basic Sales and Use Tax Seminar in Spanish (Vacaville)
March 17:	Basic Sales and Use Tax Seminar in English (Oakland)
March 19:	Basic Sales and Use Tax Seminar in English (San Jose)
March 26:	Basic Sales and Use Tax Seminar in Spanish (Oakland)